

2001-02 AGENCY OPERATING BUDGET

Recommendation

The staff recommends that the council approve the 2001-02 agency operating budget of \$140,901,000 as presented in the attached document.

Background

The 2001-02 agency operating budget is displayed in five program areas with additional financial information provided for the Trust Funds and for Federal Programs:

- Agency Operations
- Kentucky Virtual University and Kentucky Virtual Library
- Strategic Investment and Incentive Trust Funds
- Pass-Through Programs
- Federal Programs

The 2000-01 Revised Budget 3/31/01 information is provided for comparison to the 2001-02 Operating Budget. The Percent Change column shows the difference between the 2000-01 Revised Budget 3/31/01 and the 2001-02 Operating Budget.

The total 2001-02 general fund appropriation declines by 39 percent when compared to 2000-01 because the 2000-01 appropriation includes \$14.9 million of non-recurring revenue that is 1998-2000 interest earnings; \$3.2 million in current year interest earnings; and \$120 million for the Endowment Match program.

The current appropriation line in the 2001-02 agency operating budget increases by 69 percent over 2000-01 because a number of trust fund activities were funded for the first time in the second year of the biennium. These include: \$12.9 million, Action Agenda—Regional University Excellence Trust Fund; \$6.0 million, equipment Replacement Pool, Network Infrastructure, and Faculty Development—Technology Initiative Trust Fund; \$13.5 million, the Public Communications Campaign and the KEES program—Student Financial Aid and Advancement Trust Fund; \$3.0 million, the New Economy Initiatives—Science and Technology Trust Fund; and, \$5.0 million, adult education and literacy—Adult Education and Literacy Trust Fund.

An end-of-year carry-forward balance was not projected. The actual end-of-year balance will be reported to the council in the June 30, 2001, final quarterly report and will be incorporated into the 2001-02 operating budget in the 2001-02 first quarterly report. The amount reported will include

appropriations to institutions not matched or released, 1998-2000 interest earnings not released, and 2000-01 interest earnings.

The 2001-02 operating budget does not include a projection of 2001-02 current year interest earnings. The 2001-02 current year interest earnings will be reported to the council quarterly.

Agency receipts are revenues received by the agency from sources other than state appropriations. For the KYVU/KYVL, agency receipts include payments by public and private institutions to support electronic databases, a new grant to the KYVU/KYVL from the Workforce Development Cabinet for support of adult education Web-based activities, and transfers from the Student Financial Aid and Advancement Trust Fund to the contract spaces and public communications campaign. Current receipts under the agency receipts revenue category increase by 41 percent due to expansion in the trust funds, the \$1.5 million for the Public Communications Campaign, growth in KYVU/KYVL receipts, and inflationary growth in the Contract Spaces program.

A Budget Reduction Reserve of \$204,800 is shown as a separate expenditure category representing 2 percent of the 2001-02 general fund appropriation for Agency Operations and the KYVU/KYVL. Although the actual amount of the 2001-02 budget reduction is not known, state agencies, including the council, have been asked to reserve 2 percent.

University and KCTCS appropriations and council Trust Fund and Pass-Through appropriations were exempt from the 2000-01 budget reductions. But, the 2001-02 budget reductions may extend to programs beyond Agency Operations and the KYVU/KYVL.

“Allocated” refers to an action taken by the council to award funds to institutions. The term is used in this budget to refer to Trust Fund program allocations.

“Allotment” or “allotted” refers to an action by the state to place an appropriation amount in an account. An appropriation typically is allotted to the agency quarterly.

“Appropriation” or “appropriated” refers to a legislative action that provides funding to a program or activity. The terms are used in this budget to refer to appropriations to the council.

“Released” refers to the actual transfer of allocated funds to an institution. The council allocates Trust Fund program dollars to an institution but they are released only when the institution meets the established criteria.

Agency Operations

The 2001-02 state appropriation is \$4.3 million including a \$232,000 allocation for administration of adult education and literacy programs. The 2001-02 state appropriation increased 2.4 percent – this was a standard increase received by state agencies during the 2000-02 biennial budget process. Agencies were required to absorb 5 percent salary increases and inflationary adjustments in health insurance and other benefits, as well as operating budget increases for rent, utilities, travel, and supplies within the 2.4 percent general fund appropriation increase. The limitation on the increase in state appropriation coupled with the inflationary expenditure adjustments required internal reallocation during the biennial budget process.

A budget reduction reserve of \$79,800, approximately 2 percent of the general fund appropriation for Agency Operations, has been created. Personal services, specifically contracts, were the source of the reduction. If actual state-mandated budget reductions are larger than 2 percent, the council will reduce personal service contracts further and reduce out-of-state travel and conference budgets.

The Agency Operations budget includes 45 full-time positions and three part-time positions. Two of the 45 positions are associated with the GEAR UP Kentucky grant and one position is for adult education and literacy. That position is funded through the Workforce Development Cabinet, 40 percent, and the Adult Education and Literacy Trust Fund appropriation, 60 percent.

KYVU/KYVL

The general fund, current appropriation is \$6.4 million, a 2.4 percent increase. Agency current receipts increase to \$1.4 million, a 3.5 percent increase.

Agency receipts include: payments for electronic databases - \$125,000, private institutions, \$300,000 from the Kentucky Department of Education, \$400,000 from the Kentucky Department of Libraries and Archives, and \$23,200 from the KCTCS; a transfer from the Technology Initiative Trust Fund, \$425,000; a \$158,000 grant from the Workforce Development Cabinet; and \$10,000 in miscellaneous receipts.

The total expenditure budget declines 4 percent compared to 2000-01. If the 2000-01 carry-forward amount is excluded, the 2001-02 budget increases by 2.7 percent. Budgeted expenditures for personal services show a 35 percent decline; budgeted operating expenses show a 26 percent increase. These two changes partially reflect a change in the account coding for the Eduprise learning platform contract. Originally, the contract was budgeted as a personal services contract (personal services); the contract actually was awarded as a price contract (operating expenses). The 2000-01 personal services budget also includes \$536,800 in carry-forward that is associated with a personal contract—this is a one-time cost. The capital expenses budget declines by 65 percent – the 2000-01 Revised Operating Budget 3/31/01 includes non-recurring expenditures.

A budget reduction reserve of \$125,000, approximately 2 percent of the 2001-02 current general fund appropriation, is created. Personal services, specifically contracts, have been reduced to accommodate the budget reduction. If actual state-mandated budget reductions are larger than 2 percent, the contract

budget will be reduced further and out-of-state travel and other operating expense categories will be reduced.

There are 27 positions budgeted in the KYVU/KYVL. This is an increase of three positions from 2000-01 and is associated with the Workforce Development Cabinet grant of \$158,000. The Workforce Development Cabinet has contracted with the KYVU/KYVL to manage the adult education Web-site and to provide Web-based instructional services to adult education.

Strategic Investment and Incentive Trust Funds

Interest earnings on trust funds, from the 1998-2000 biennium, are shown as general fund, carry-forward. For most trust funds, the council has allocated 1998-2000 interest earnings to the institutions. Restrictions on access to these funds are reported in the narrative for each Trust Fund. The interest earnings for 2000-01 are shown as general fund, current year interest earnings. These funds are unallocated at the request of the Governor's Office for Policy and Management. Action on these funds will be taken in 2001-02.

- **Endowment Trust Fund**

The Endowment Trust Fund appropriation for 2000-01 was \$120 million—there is no appropriation in 2001-02. Of the 2000-01 appropriation, \$57.2 million has been allocated through March 31, 2001. Only Western Kentucky University has fully matched its 2000-01 allocation. A final report on all 2000-01 allocations will be made in the 2000-01 final quarterly report—activity during 2001-02 will be reported in the 2001-02 quarterly reports.

- **Research Challenge Trust Fund**

There are three programs in the Research Challenge Trust Fund: Enrollment Growth and Retention, Research Challenge, and Lung Cancer Research. The Research Challenge program did not receive an appropriation for 2000-01 or 2001-02—it is listed because interest earnings from 1998-2000 and 2000-01 remain in institutional accounts. The 1998-2000 interest earnings are available to the University of Kentucky and the University of Louisville upon completion of the statewide engineering agreement. A full report on the interest earnings and expenditures through 2000-01 will be made at the July 30, 2001, council meeting.

Enrollment Growth and Retention funds, \$1,650,000, have been allocated and will be released quarterly.

House Bill 608 requires that a plan for the expenditure of the Lung Cancer Research funds be filed with the council. Neither the 2000-01 nor the 2001-02 appropriation for Lung Cancer Research will be released until the plan is filed.

- **Regional University Excellence Trust Fund**

There are three programs in the Regional University Excellence Trust Fund: Enrollment Growth and Retention, Programs of Distinction, and Action Agenda.

Enrollment Growth and Retention funds, \$2,850,000, will be released quarterly.

Programs of Distinction did not receive an appropriation in 2000-02. The amounts shown in the Revised Budget 3/31/01 column represent 1998-2000 interest earnings and 2000-01 current year interest earnings.

The process for awarding 2001-02 Action Agenda funds is before the council at this meeting. We anticipate allocations to occur into the 2001-02 fiscal year.

- Technology Initiative Trust Fund

There are five programs included in the Technology Initiative Trust Fund for 2001-02: Strategic Initiatives, Equipment Replacement, Network Infrastructure, Public Communications Campaign, and Faculty Development.

The Equipment Replacement program supports instructional and research equipment acquisitions at the institutions. The appropriation for 2001-02, \$3.8 million, has been allocated and will be released in the first quarter.

The council financially supports postsecondary education's Network Infrastructure through the Kentucky Postsecondary Education Network (KPEN) which is part of the larger Kentucky Information Highway (KIH). KPEN is a high-speed ATM backbone reaching to each institution and campus in the postsecondary education system. The 2001-02 \$1.2 million appropriation will allow for expansion of the network, i.e., greater bandwidth to the technical and community colleges and to selected universities who already exceed capacity of existing lines. The appropriation also will offset greater than anticipated costs of the Internet Services contract.

The Public Communications Campaign is funded at \$1.5 million from lottery proceeds with funding available only after KEES scholarship commitments are met. At this time, we do not know whether a portion or any of the \$1.5 million will be available. We reserved \$1.0 million in the Strategic Initiatives program for the Public Communications Campaign should the lottery proceeds not be available.

Faculty Development funds will be available to the institutions in 2001-02. A separate agenda item will be presented to the council for allocation of these funds.

Strategic Initiatives represent the balance of the Technology Initiative Trust Fund. Of the \$1.6 million budgeted for 2001-02, \$500,000 is committed to the KYVU/KYVL and \$1.0 million is reserved for the Public Communications Campaign should lottery proceeds not be available.

- Physical Facilities Trust Fund

There are three programs in the Physical Facilities Trust Fund: Capital Renewal/Maintenance—Debt Service; Renovation, Replacement, and Infrastructure; and New Construction—Debt Service. The appropriation for 2001-02 is \$20.9 million; there was no appropriation for 2000-01. The 2001-02 appropriation for each program has been allocated and will be available for distribution July 1, 2001. The distribution scheme for capital renewal and renovations was presented to the council on September 18, 2000, and for equipment replacement on November 13, 2000.

- Postsecondary Workforce Development Trust Fund

There are three programs in the Postsecondary Workforce Development Trust Fund: Enrollment Growth and Retention, Workforce Training, and, Administrative Systems. The KCTCS is the only recipient of funds. Enrollment Growth and Retention funds have been allocated and will be released quarterly. The 2001-02 Workforce Training program funds will be released when program proposals are received and accepted by the council.

The Administrative Systems appropriation was for 2000-01 and was non-recurring.

- Student Financial Aid and Advancement Trust Fund

There are six activities included in the Student Financial Aid and Advancement Trust Fund: KEES, KEES Reserve, Contract Spaces, National Guard Tuition Reimbursement, Public Communications Campaign, and the Collaborative Center for Literacy Development.

Senate Bill 21, which created the KEES program, requires the percentage of funds allocated from the Kentucky Lottery to increase each of five years until the program is fully implemented. The 2001-02 appropriation for KEES, \$24.6 million, increases by 46 percent. When fully deployed, the KEES program will cost \$120 million.

The KEES Reserve increases from \$2.0 million to \$6.3 million.

The National Guard Tuition Reimbursement, Contract Spaces, the Public Communications Campaign, and the Collaborative Center for Literacy Development programs all are scheduled to receive funding through the Kentucky Lottery. Funding for these programs will be available only after all KEES program expenses are covered.

- Adult Education and Literacy Trust Funds

The 2001-02 appropriation, \$11.8 million, increases by 74 percent. The 2001-02 distribution is being presented to the council and will be considered at the May 2001 meeting.

- Science and Technology Trust Fund

There are five programs included in the Science and Technology Trust Fund: Research and Development, Commercialization, Regional Technology Service, Entrepreneurial Audit, and Rural Innovation Fund. These five programs plus the EPSCoR program, funded as part of Pass-Through Programs, comprise the 2000-02 new economy initiatives.

Research and Development, Commercialization, and the Regional Technology Service are funded in 2001-02; the Entrepreneurial Audit and the Rural Innovation Fund are 2000-01 appropriations. The Kentucky Science and Technology Corporation will manage these programs for the council. Any proposed distribution of funds will be presented to the council.

Pass-Through Programs

Pass-Through Programs are those activities where the council acts as an agent for a general fund appropriation intended for another entity and simply “passes through” the funds to the entity for whom the appropriation is intended. A list of pass-through programs is included in the financial table under Expenditures by Program. The 2001-02 appropriation is 24.2 percent lower than the 2000-01 appropriation. The difference is in the Experimental Program to Stimulate Competitive Research (EPSCoR) where the 2000-01 appropriation included a one-time appropriation of some \$4.0 million. When EPSCoR is excluded from the comparison, the 2001-02 appropriation increases by 1.3 percent.

Federal Programs

The council operates two federal programs: Eisenhower Science and Mathematics and the GEAR UP Kentucky. The Eisenhower program provides grants to colleges and universities for science and mathematics education. The postsecondary education allocation is coordinated with a similar program in the Kentucky Department of Education.

GEAR UP Kentucky is part of Kentucky’s effort to improve the college-going rate in Kentucky. GEAR UP Kentucky is an intervention and enrichment program that tracks middle school students through high school. The grant is \$2.1 million for each of five years beginning with 2000-01. The federal grant must be matched 50/50 through a combination of state, local, and private funds. Grants will be made to colleges, universities, and local schools to develop special programs for targeted students in high-risk school districts.

The amounts shown for 2001-02 are the same as those in the 2000-01 operating budget.